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KEALI'I S. LOPEZ
DIRECTOR

TO THE HOUSE COMMITTEE ON FINANCE

TWENTY-SIXTH LEGISLATURE
Regular Session of 2012

Tuesday, February 28, 2012
11 a.m.

WRITTEN TESTIMONY ONLY

TESTIMONY ON HOUSE BILL NO. 1896, H.D. 1 – RELATING TO INSURANCE.

TO THE HONORABLE MARCUS OSHIRO, CHAIR, AND MEMBERS OF THE COMMITTEE:

My name is Gordon Ito, State Insurance Commissioner ("Commissioner"), testifying on behalf of the Department of Commerce and Consumer Affairs ("Department").

The Department supports the intent of this bill, with the following concerns.

The purpose of this bill is to promote economic revitalization through the temporary reform of the health insurance medical loss ratio by: (1) establishing a 90% medical loss ratio ("MLR") for health plans offered by mutual benefit society or health maintenance organization for the two-year period from January 1, 2013 to December 31, 2014; (2) appropriating a unspecified amount from the compliance resolution fund for the implementation of this Act; and (3) requiring the Commissioner to submit a report on the bill's impact to the Governor and the Legislature twenty days prior to the convening of the 2014 regular session.

This version of the bill allows the Commissioner to exempt a managed care plan from the higher MLR where it may become insolvent or unable to adequately deliver services and contains a defective effective date of January 1, 2050.

The federal Patient Protection and Affordable Care Act ("PPACA") in 2011 imposed a medical loss ratio ("MLR") of 80 to 85%, with rebates to be provided in 2012 by insurers that did not meet the MLR. This bill would impose a higher MLR of 90% and would require rebates by insurers that do not meet the 90 percent.

The Department has concerns about the proposed amendments to HRS § 431:14G-103(a) in section 3 of the bill. First, it is unclear whether the rates must be reduced where the 90% MLR is not met by an MBS or HMO, as opposed to enforcing the federal rebate requirement. Second, the language "and shall be reasonable in relation to the costs of the benefits" on page 3, lines 15-16, is being deleted. This language is necessary to clarify that rate regulation is not designed to push premiums below insurers' costs. If rates are below insurers' costs, this will tend to foster both insurer insolvencies and a scarcity of health insurance in the market.

We thank the Committee for the opportunity to present testimony on this matter.

HMSA

Blue Cross Blue Shield of Hawaii

An Independent Licensee of the Blue Cross and Blue Shield Association

February 28, 2012

The Honorable Marcus R. Oshiro, Chair
The Honorable Marilyn B. Lee, Vice Chair
House Committee on Finance

Re: HB 1896, HD1 – Relating to Insurance

Dear Chair Oshiro, Vice Chair Lee and Members of the Committees:

The Hawaii Medical Service Association (HMSA) appreciates the opportunity to testify on HB 1896, HD1 which establishes a medical loss ratio of 90 percent for a managed care plan offered in the group or individual coverage market. HMSA supports the intent of this legislation. However, we do have concerns with the Bill as drafted and have recommended amendments to address those concerns. Attached for your consideration is a proposed HD2 version of HB 1896, HD1.

Our primary concern with this Bill is with its limited application only to a managed care plan offered by a mutual benefit society or nonprofit health maintenance organization. Equity demands that this provision should apply to all entities offering managed care plans in the individual and group coverage markets. An additional amendment is made to clarify that the medical loss ratio would be calculated separately for the large group, small group, and individual markets. We have discussed these amendments with the co-chairs of the prior committees and believe they are amenable to the changes.

We understand and appreciate the concern about the rising cost of health care. We at HMSA have made great efforts to control costs from administrative reviews to implementing a new pay for performance model for provider reimbursement. Given that, we appreciate the focus of this legislation and support its intent. We ask for your favorable consideration of the suggested amendments in the attached proposed HB 1896, HD2.

Thank you for the opportunity to testify today.

Sincerely,

Jennifer Diesman
Vice President
Government Relations

Attachment

Hawaii Medical Service Association | 818 Keeaumoku St.• P.O. Box 860 Honolulu, HI 96808-0860 | (808) 948-5110 | Branch offices located on Hawaii, Kauai and Maui | Internet address www.HMSA.com

HOUSE OF REPRESENTATIVES
TWENTY-SIXTY LEGISLATURE, 2012
STATE OF HAWAII

H.B. NO. 1896 PROP HD2

A BILL FOR AN ACT

RELATING TO INSURANCE.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

SECTION 1. The legislature finds that rising health insurance premium costs are detrimental to businesses in the State during this period of slow economic recovery. Restricting health insurance premium cost increases would assist businesses in expanding or, at least, maintaining operation.

The purpose of this Act is to promote economic revitalization through the temporary reform of the health insurance medical loss ratio and rate regulation provisions of the State's insurance code.

SECTION 2. Chapter 431, Hawaii Revised Statutes, is amended by adding a new section to article 14G to be appropriately designated and to read as follows:

"§431:14G-A Medical loss ratio for January 1, 2013, to December 31, 2014. (a) For the purpose of this section:

"Health care quality improvement cost" means expenditure for activities to improve health care quality that is subject to section 2718(a)(2) of the Public Health Service Act.

"Medical cost" means expenditure on reimbursement for clinical services that is subject to section 2718(a)(1) of the Public Health Service Act.

"Medical loss ratio" means the ratio of premium revenue expended on medical and health care quality improvement cost to total premium revenue (after certain exclusions such as taxes), as calculated in accordance with section 2718(b)(1)(A) of the Public Health Service Act.

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"Public Health Service Act" means the federal Public Health Service Act, as amended and any regulations or guidance issued under that Act.

(b) As authorized under section 2718(b)(1)(A)(i) and (ii) of the Public Health Service Act, the State shall establish a higher medical loss ratio for [~~certain~~] health insurance plans.

(c) This section shall apply to policies with plan years beginning

~~(1) Offered by a mutual benefit society or health maintenance organization not taxed under article 7, part II; and~~

~~(2) Effective~~] January 1, 2013 through December 31, 2014.

The medical loss ratio for all policies issued in the group or individual market during the medical loss ratio reporting year shall be ninety per cent. A managed care plan's medical loss ratio shall be calculated separately for the large group market, small group market and individual market.

[~~(d) For a managed care plan not subject to subsection (c), the medical loss ratio shall be that established under section 2718(b)(1)(A) of the Public Health Service Act."~~]

SECTION 3. Section 431:14G-103, Hawaii Revised Statutes, is amended by amending subsection (a) to read as follows:

"(a) Rates shall not be excessive, inadequate, or unfairly discriminatory [and shall be reasonable in relation to the costs of the benefits]; provided[.] that, when reviewing proposed rates, the filing for which is pending on January 1, 2013, or submitted to the commissioner between January 1, 2013, and December 31, 2014, the commissioner shall consider the medical loss ratio applicable to the filer under section 431:14G-A."

SECTION 4. Section 431:14G-105, Hawaii Revised Statutes, is amended by amending subsection (e) to read as follows:

"(e) Rates shall be established in accordance with this article and actuarial principles, based on reasonable

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assumptions, and supported by adequate supporting and supplementary rating information. After reviewing a managed care plan's filing, the commissioner may require that the managed care plan's rates be based upon the managed care plan's own loss and expense information."

SECTION 5. After the repeal of this Act on December 31, 2014, the rates of a health insurer, to which the criteria of section 431:14G-103(a), Hawaii Revised Statutes, were applied, shall continue in effect until revised in accordance with chapter 431, article 14G, Hawaii Revised Statutes.

SECTION 6. The insurance commissioner shall submit a report to the governor and legislature no later than twenty days prior to the convening of the 2014 regular session. The report shall include information on the impacts of this Act and a recommendation on whether any provision of this Act should be made permanent, with or without modification.

SECTION 7. There is appropriated out of the compliance resolution fund of the State of Hawaii the sum of $, or so much thereof as may be necessary for fiscal year 2012-2013 for the implementation of this Act by the insurance commissioner.

The sum appropriated shall be expended by the department of commerce and consumer affairs for the purposes of this Act.

SECTION 8. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION 9. This Act shall take effect on January 1, 2013, and shall be repealed on December 31, 2014; provided that:

(1) Section 7 shall take effect on July 1, 2012;

(2) Section 5 shall not be repealed on December 31, 2014; and

(3) Sections 431:14G-103(a) and 431:14G-105(e), Hawaii Revised Statutes, shall be reenacted in the form in which they read on December 31, 2012.

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INTRODUCED BY: ______________________________

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H.B. NO.

Report Title:
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The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.

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